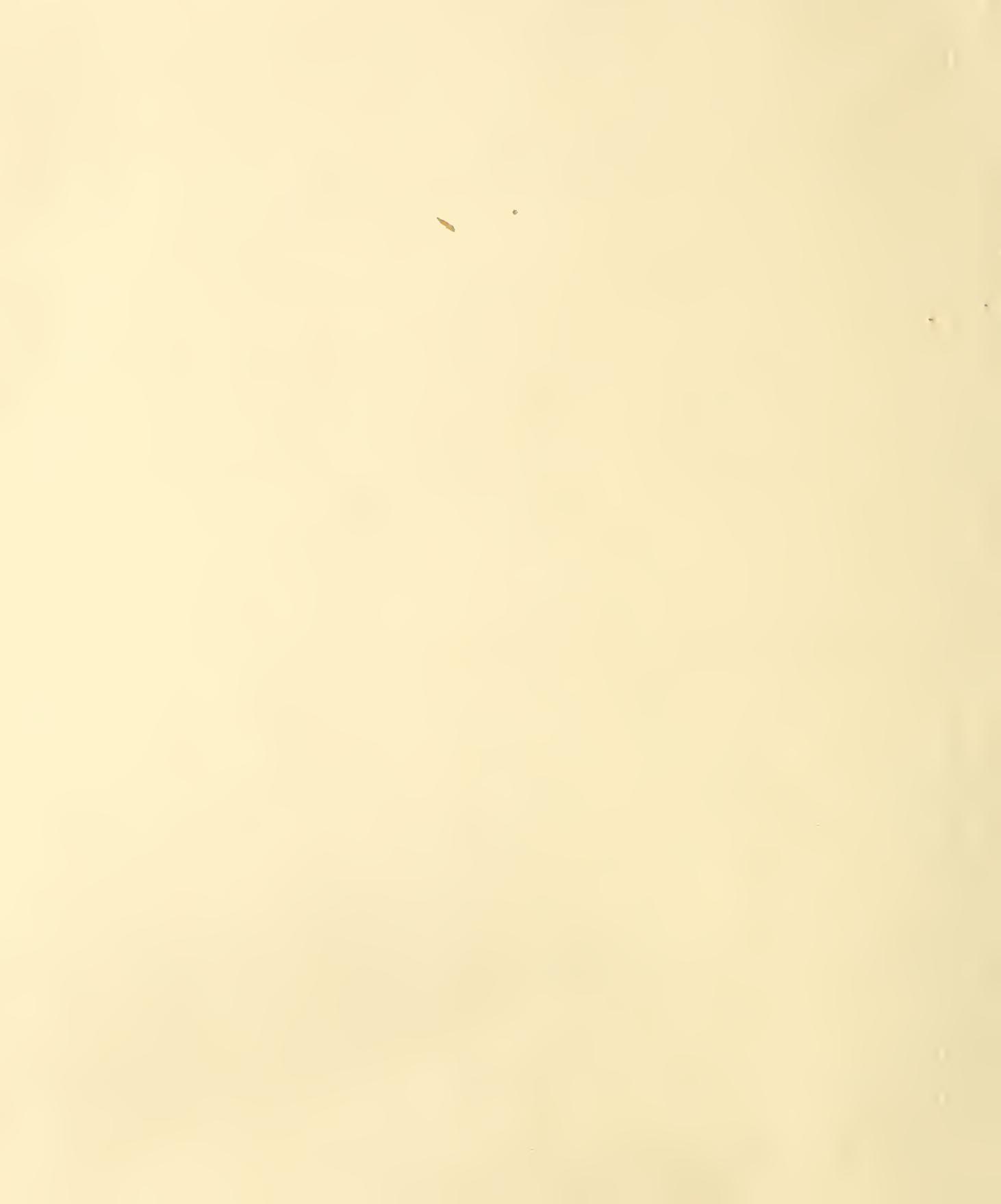


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POSTWAR FOREIGN MARKETS FOR AMERICAN COTTON

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The problem of foreign markets is of great importance in appraising the postwar cotton situation. This is so simply because we have developed a cotton producing capacity in this country capable of supplying far more than our domestic requirements. If we do not have foreign markets we will have to cut down our production drastically.

Admittedly, an appraisal of postwar foreign markets must be highly speculative. There are a good many unknowns in the situation. Nevertheless, we will be borrowing trouble if we take the position that the future is obscure and uncertain and we must just wait and see what happens. While we may be able to see only dimly the many facets of the postwar situation, we can make certain assumptions on the basis of past experience and present conditions and then consider what our program for retaining foreign markets should be under the most likely of the various possibilities.

The points concerning which it is necessary to try to make some assumptions may be listed as follows:

1. The exportable surplus position of the United States
2. The exportable surplus situations in other exporting countries
3. The probable requirements of the cotton importing countries of the world, and finally
4. The share of the world cotton market that the United States might expect to get under various possible postwar conditions.

First, then, as to the supply of cotton in the United States. I have already suggested that if we have no foreign markets we must cut down our production. Of this I think there can be no doubt. Even during the war, with our domestic consumption greatly increased, we have been accumulating excess supplies. Domestic consumption is likely to be lower after the war rather than higher, so the conclusion must be that, with present acreage and yields, we will be producing an exportable surplus.

Secondly, we must make some assumption as to the supplies that may be available in other exporting countries. This is not as easy to appraise as our domestic supply situation, since in some cases, as in Egypt, cotton production has been greatly reduced while in others, such as Brazil, production has been expanded - in the latter case in spite of a falling off in exports. But taking a general view we do know that, even with a net reduction of cotton production in foreign countries during the war, there has been a very marked increase in the carryover stocks of foreign produced cotton. Such carryover stocks of foreign cotton have risen from 7,500,000 bales in the 1939-40 season to 14,380,000 bales in the 1944-45 season. It is evident that, immediately after the war, supplies of foreign cotton are going to be abundant. In the longer run, with the removal of wartime handicaps to production, there is every reason to expect that foreign production will at least regain its prewar status.

A third assumption has to be made as to the likely requirements of the cotton importing countries of the world and the relation of these requirements to the available exportable supplies in the producing countries. It is extremely difficult to estimate these requirements. Perhaps the best way to tackle it is to consider what the trend of import requirements was before the war, the effect of the substitution of synthetic fibers for cotton, and finally what the general international economic and trade situation may be after the war.

As regards the first point, the trend of world import requirements before the war, it is I think of interest that during the inter-war period the amount of cotton entering into world trade tended to fluctuate in the neighborhood of 13,000,000 bales per annum. There is no definite indication of either a rising or declining trend. This fact by itself is perhaps of no great significance. But it is significant that during the same period world cotton consumption did show a definite upward trend. This rise in world consumption at a time world trade was barely holding its own is explained by the fact that the cotton growing countries were doing more manufacturing of textiles for domestic use as well as for export. There has been an accentuation of this tendency during the present war, particularly in India and Brazil.

A second important factor in the postwar cotton import situation concerns the problem of substitute fibers. It is clear that during the war there has been a marked expansion in the production of synthetic fibers, particularly in the countries which before the war were large importers of cotton. To a considerable extent this development has been due to the non-availability of cotton and the relatively greater availability of the raw materials from which synthetic products are made. But it has also been due to extensive technological advances. Consequently, even when cotton becomes freely available, it is not to be expected that these deficit countries will abandon the production of the synthetic substitutes. On the contrary, with the technological improvements already made and those that will doubtless occur, it should

rather be expected that substitute fibers will be much more important competitively than before the war. This tendency is likely to be accentuated in any cotton importing country that finds its foreign funds too short to cover all of the purchases it would like to make abroad.

A third factor which will have a considerable influence on the amount of cotton that moves in world trade after the war is the situation as regards economic activity and international trade as a whole. We can be quite sure that the amount of cotton moving in world trade will be less if the nations of the world experience a certain measure of economic depression and are led to pursue highly nationalistic policies as a result. Obviously, there will be a better opportunity to sell cotton in an expanding world economy. It is impossible for anyone to predict exactly what will happen in a field affected by so many factors, economic as well as political. But one thing is certain, the prospect for a high level of economic activity in all countries of the world will be enhanced by national policies that are conducive to a large exchange of goods among the nations of the world. And such national policies will be much more likely to prevail in a world in which international collaboration is the rule rather than the exception.

Taking these various factors into account, it seems safest to assume that world import requirements for cotton after the war will be no larger than the average imports before the war, or about 13,000,000 bales per annum.

The next assumption we must make concerns the share that the United States may expect to get out of this total. This will hinge largely upon two factors. The first and most important is that of price. The second is that of available dollar exchange in the countries that need to import cotton.

First, as to price. The United States now has a policy of governmental support of the price of cotton at close to parity. I think it is well to bear in mind that this particular formula of parity is an American formula and has not been adopted in other cotton producing countries. It is by now pretty clear that a price resulting from this American formula is higher than the prices at which other cotton exporting countries are prepared to increase production and exports of cotton. If this is so, it is also clear that the United States must be prepared to accept lower than parity prices on export cotton if it is to maintain its position in world markets. I do not go so far as to say there would be no exports even at parity since for some time to come it is quite possible that other exporting countries will not be in a position to supply the total import demand. But the United States would be in the position of having to take what was left over after other countries got the lion's share.

The second factor is that of the purchasing power of our foreign customers, either in the form of dollars or of gold. In the short run this over-all purchasing power may be quite substantial because of wartime developments. For one thing, some countries have increased considerably their holdings of gold and their capacity to produce it. For another thing, the United States has had to cut down on commercial exports and at the same time has purchased considerable amounts of war materials abroad and has paid out dollars in connection with the construction of bases and the maintenance of our forces in foreign countries. An additional short run factor will be our loans and investments abroad. All in all it would not seem as though a shortage of dollars would be, in the short run, a decisive factor in limiting the quantities of American cotton bought by the importing countries.

In the long run, however, in view of our position as the greatest creditor country of the world, the ability of our foreign customers to find the dollars they need in order to buy from us will depend fundamentally on our willingness to accept goods and services from abroad. This means that we should have a positive rather than a negative attitude toward imports. The effort should be to see, in the light of our own domestic situation and policies, how much we can accept rather than how little. Our reciprocal trade agreements program could play an important part in the carrying out of such a positive policy.

It should be remembered, however, that the fact that foreigners may have a large supply of dollars does not necessarily mean they will spend those dollars for United States cotton. In the postwar world foreigners will be looking to the United States for many things, such as machinery to rebuild their industries and equipment for their transportation systems. After reconstruction foreigners will continue to look to the United States for many industrial products, which because of our mass production methods can be obtained here in better quality and at cheaper prices than from anywhere else in the world.

This leads us back, therefore, to the question of cotton prices. It should be abundantly clear that with prices in the United States maintained at or near parity this will not be the country that foreign countries will look to first in obtaining their raw cotton supplies.

Steps have already been taken to put our export price of cotton on a competitive basis. This export program will be covered in another statement to your committee. I wish only to point out certain international implications.

There is no doubt that, so long as funds are available, the present or a similar export program can put our prices on a basis that will be attractive

to foreign importing countries. I may say in this connection that we have some advantage in the fact that over many years American cotton has established a name for itself in many countries of the world.

But what is likely to be the effect of such a program on the world cotton situation? This will depend in large measure on how the program is actually operated. If it is operated from a completely national point of view with the idea of disposing of all the surplus supplies in the shortest possible time, the program can not fail to have an extremely depressing effect on world market prices. It could also involve the United States in a trade war which, besides being costly in terms of public funds, would seriously disturb our international economic relations.

If, on the other hand, the program is operated conservatively with a view to having the least possible effect on world prices, the result would be that the money cost would be small but we would dispose of very little cotton.

There is a third alternative, and that would be to seek, in consultation with other cotton producing and cotton exporting and importing countries, a collaborative arrangement which would assure cotton importing countries of adequate supplies, on the one hand, and would, on the other hand, assure reasonable shares for each of the exporting countries in filling these requirements.

It seems to me that there can be no doubt as to the course that should be taken. Every effort should be made, in cooperation with other interested countries, to find a collaborative solution. It seems to me the only question is, what are the chances of doing so?

It is important, I think, not to minimize the difficulties. There is very little doubt but that all of the countries interested will be prepared to get together to discuss the problem. The question is, will they be able to agree to a solution? I must say quite frankly that the answer to that is not free of doubt. A good many attempts in the direction of international commodity collaboration were made during the inter-war period. In some cases agreements were reached and were put into effect. In other cases it was not possible to go any further than simply to set up machinery for an exchange of information. In general, there were few cases in which there was an effective international program. Still, it should be noted that the United States has actually entered into international agreements with respect to sugar and coffee and has entered into a provisional arrangement in respect to wheat.

I should like to touch briefly on the wheat agreement because it seems to offer the best illustration of the possibilities. In doing so I should say

first of all that attempts to negotiate an international agreement on wheat date back to the early nineteen thirties and, although an agreement of a sort was reached in 1933, it lacked effective operating provisions. It was not until 1942 that practical results were obtained. In that year an interim agreement was reached between the four principal wheat exporting countries of the world, the United States, Canada, Australia and Argentina, and the principal wheat importing country of the world, the United Kingdom. This agreement provides among other things for allocations of exports between the exporting countries, it provides the mechanism for establishing world price limits and it has provisions for limiting the accumulation of stocks and for expanding consumption through contributions for relief, and in other ways. It should be emphasized that the agreement is not now and has not been in full force and effect. What has been accomplished is that an interim arrangement has been made between the five countries principally concerned and what might be called a world wheat charter has been drawn up which can be placed before a truly representative international meeting when conditions are such as to make this step desirable.

The principal feature of this world wheat charter which sets it apart from practically all of the international agreements attempted during the nineteen thirties is the emphasis that is placed on getting a truly representative adherence including not only all of the important wheat exporting countries but also all of the more important wheat importing countries. It also places particular emphasis on the importance of securing as large a world consumption and trade as possible.

As I said before, experience does not give grounds for too much optimism. But perhaps here is a case where past experience is not a very good guide. For instance, critics of prewar commodity agreements have called attention to their restrictive nature. But they appear to overlook the fact that these early attempts toward international commodity collaboration were made at times when prices were at record low levels and the position of the producers of primary products was desperate. It was hardly the setting in which one would expect positive action toward a further expansion of supplies already in excess. Conversely, other critics point to the failure to obtain international agreements on particular products as an argument against this type of international economic collaboration. But here again it must be remembered that the years between the wars and, more particularly, the period from 1933 to 1939, were not years of genuine peace. They were, in fact, years which were characterized by economic warfare and a state of world political affairs in which collaboration of any kind between governments was extraordinarily difficult.

We have every reason to hope, in fact to expect, that these unfavorable general conditions will not prevail in the period immediately following the war. In the first place, prices will not be at a low ebb. They will, in fact, be supported by the governments of various producing countries at levels considerably higher than prevailed in prewar depression years. But more important it seems to me is the prospect for a more favorable general attitude toward international cooperation. This is evidenced in the United States by resolutions passed by both houses of Congress and statements of the President and of the Secretary of State. It is evidenced by the numerous international conferences and meetings that have been held even before the war has been brought to an end. Such conferences point to a new method of handling international problems in the years ahead. In this kind of environment there is reason to have a considerable degree of optimism as regards the question of effective international economic collaboration. And in this general field of international cooperation there is not, from the point of view of the United States, a more important segment than that which concerns the future of international trade in cotton.

